

# GTG Wellness (219750 KQ)

Ray Han  
kyungrae.han@daishin.com

Lee Sae-rom  
saerom.lee@daishin.com

Rating **BUY**  
initiate

6M TP (₩) **20,000**

CP (₩)  
(19.06.19) **12,650**

Small caps

## LED mask maker poised to shine in 2H19

### Coverage initiated with BUY and 6M TP of ₩20,000

- The target price is based on a 2019E EPS of ₩1,283 and a target P/E of 16x. The company's peer group includes makers of beauty care products and medical equipment and those that sell health & food supplements mainly through TV shopping channels. This is attributable to the products those companies sell and their potential to benefit from market expansion as consumer interest in health and beauty continues to grow. Another reason is their use of TV shopping channels to directly sell such products to customers.

### New product to help diversify B2C product lineup

- Since GTG Wellness began selling Opera Milux (LED mask for face and neck) through a TV shopping channel in May, the flagship product has been steadily bringing in ₩400-600mn in sales per appearance. The company will recognize full-quarter revenue from the new product starting in 3Q19. The product, which is exclusively sold on GS Home Shopping at the moment, may also be available on CJ O Shopping starting in 2H19.

- Using a conservative estimate of ₩400mn in sales per appearance, Opera Milux is forecast to generate ₩11.6bn in sales in 2H19, up 203% from 1H19.

- The company's other products such as SNOR-STOP (snore-reducing aid) and WF Face Fitness (face-lifting device) will also be available on TV home shopping again. SNOR-STOP, which will resume sales in the last week of June, is expected to provide a stable stream of revenue for the company considering its increased price competitiveness and past performance. (It generated ₩400mn in sales per appearance in 1Q19.) WF Face Fitness will become available for purchase in early July again.

- GTG Wellness is projected to see full-year B2C sales jump 366% yoy to ₩39.7bn thanks to its diversified product mix and access to more TV shopping channels.

### A push into video commerce

- GTG Wellness is in the middle of establishing a video commerce provider named HEYCOMM.ON. It has recruited marketing experts from Blank Corporation (media commerce company) and show hosts from TV shopping companies. The new platform is expected to generate synergies with the company's existing beauty products.

### Clear signs of a turnaround in view

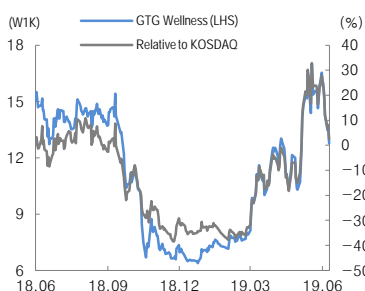
- B2C sales are forecast to reach ₩5.3bn in 2Q19, ₩13.6bn in 3Q19, and ₩15.5bn in 4Q19 with the help of the company's newly released Opera Milux and a diverse portfolio of medical devices and beauty products.

- Thanks to growing sales of profit-rich B2C products, GTG Wellness is poised to pull off a profit turnaround this year, ending the year with ₩8.4bn in OP (up 15.8% yoy).

Industry 4.0 safety rating ■ Sky Blue

KOSDAQ	717.71
Market cap (Wbn)	79
Market cap portion (%)	0.03
Paid-in capital (common; Wbn)	3
52w high/low (₩)	16,950 / 6,100
120d avg. trading volume (Wbn)	3.3
Foreign ownership (%)	1.17
Major shareholders	Kim Tae-hyun+2: 48.51%

(%)	1M	3M	6M	12M
Abs. return	-13.7	15.5	98.9	-16.2
Rel. return	-14.1	20.5	86.3	-4.8



### Operating results and major financial data

(Wbn, ₩, x, %)

	2017A	2018A	2019F	2020F	2021F
Revenue	24	22	53	71	83
OP	2	-3	8	13	15
Pretax profit	2	-6	8	12	14
NP	2	-6	8	10	12
NP (controlling int.)	2	-6	8	10	12
EPS	1,278	-1,143	1,283	1,730	1,947
PER	8.5	NA	9.9	7.3	6.5
BPS	2,627	3,805	4,395	6,075	7,966
PBR	4.1	1.6	2.9	2.1	1.6
ROE	24.7	-36.2	33.0	32.1	26.9

Note: EPS, BPS, and ROE are based only on the controlling interest.

Source: GTG Wellness, Daishin Securities Research Center

# I. Valuation

## Coverage initiated with BUY and 6M TP of W20,000

Our investment case for GTG Wellness is supported by the company’s explosive 366% yoy growth in B2C sales expected this year achieved via a diversified portfolio of beauty products and medical devices including Opera Milux and its push into video commerce, which is expected to provide added momentum to earnings. Another consideration is the stock’s valuation: Trading at a 2019E P/E of about 10x, the stock is severely undervalued relative to its rapid earnings growth. We believe it deserves a re-rating in line with the impressive growth of Korea’s beauty devices market (11.5% annually since 2015).

Tab 1. GTG Wellness valuation

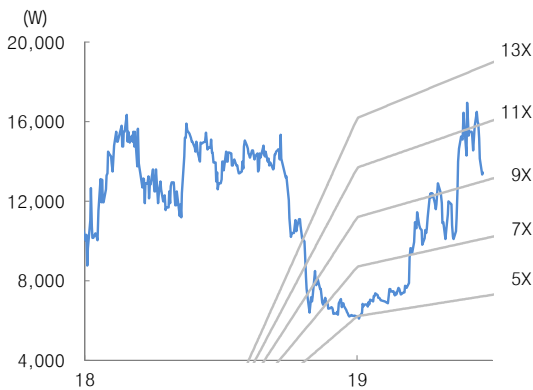
(W, x, %)

EPS	1,283	2019E EPS
Target P/E	16.0	A 30% discount to peers' 2019E average P/E.
Target price	20,000	
Current price	12,650	
Current P/E	9.9	
Upside potential (%)	58	

Note: The 30% discount can be justified by the fact that GTG Wellness' market cap is smaller than that of its peers and some of its peers trade at high multiples due to their idiosyncratic momentum factors.

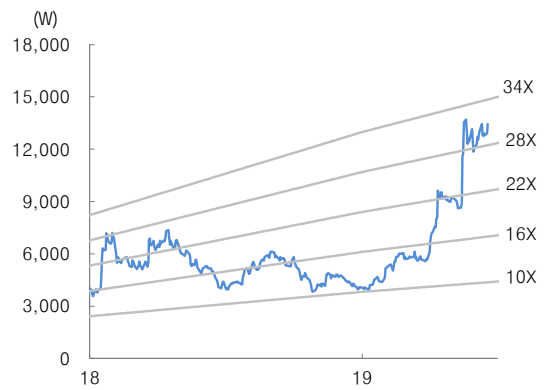
Source: GTG Wellness,, Daishin Securities Research Center

Fig 1. GTG Wellness' forward P/E



Source: Quantiwise, Daishin Securities Research Center

Fig 2. Classys' forward P/E



Source: Quantiwise, Daishin Securities Research Center

Tab 1. Peers

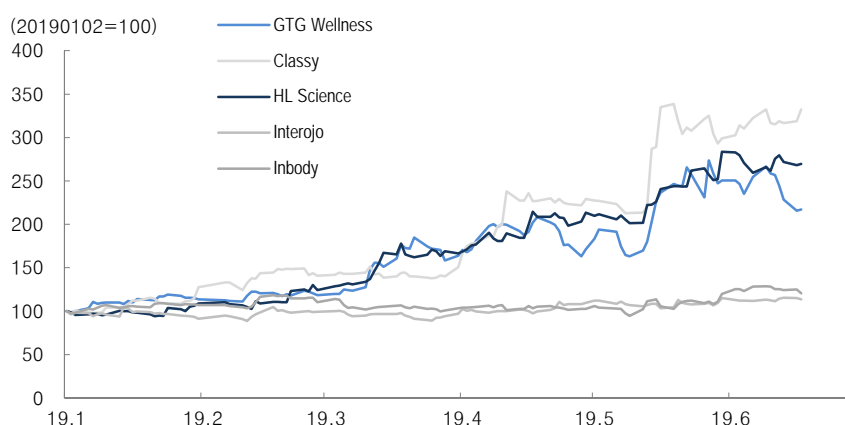
(W, Wbn, %, x)

Company		GTG Wellness	Classys	HL Science	Interjojo	Inbody
Country		Korea	Korea	Korea	Korea	Korea
Share(Jun 19)		12,650	12,900	111,100	26,500	26,150
Market cap		79	799	571	301	358
Revenue	2018A	22	47	64	79	100
	2019F	53	65	104	92	117
	2020F	52	79	139	106	131
OP	2018A	-3	17	12	17	24
	2019F	8	27	22	22	29
	2020F	9	31	30	26	33
OP margin	2018A	-14.3	36.8	19.1	21.6	23.8
	2019F	15.8	40.8	21.0	24.5	24.7
	2020F	16.4	39.6	21.4	24.9	25.1
NP	2018A	-6	15	11	15	20
	2019F	8	21	19	19	24
	2020F	7	25	26	22	27
NP margin	2018A	-26.5	31.2	16.9	18.4	19.7
	2019F	14.8	32.5	18.2	20.5	20.1
	2020F	14.2	32.0	18.4	20.6	20.5
P/E	2018A	na	16.9	20.1	19.0	14.9
	2019F	9.9	37.9	30.1	15.9	15.2
	2020F	7.3	31.9	22.3	13.7	13.4
P/B	2018A	2.0	5.0	3.5	2.3	2.3
	2019F	2.9	11.4	7.0	2.2	2.4
	2020F	2.1	8.4	5.4	1.9	2.1
EV/EBITDA	2018A	na	13.8	13.3	12.2	10.4
	2019F	8.4	30.6	22.5	10.5	10.6
	2020F	5.2	24.7	18.7	9.0	9.3
ROE	2018A	-36.2	34.4	15.8	13.1	17.0
	2019F	33.0	31.6	26.5	14.3	17.3
	2020F	32.1	30.1	24.8	15.0	16.9
EPS	2018A	-1115	242	2,147	1,295	1,459
	2019F	1,283	340	3,676	1,663	1,716
	2020F	1,730	404	4,959	1,934	1,956

Note: The fiscal year ends in December.

Source: Bloomberg, Daishin Securities Research Center

Fig 3. Peers' relative share price performance



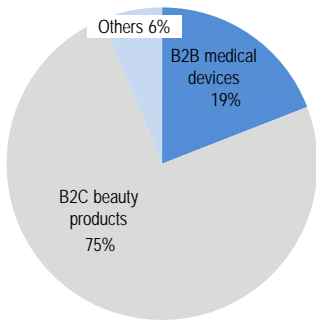
Source: GTG Wellness, Daishin Securities Research Center

## II. Investment case

### Opera Milux to see quarterly sales grow starting in 2Q19

GTG Wellness began offering Opera Milux (LED mask for face and neck) through a TV shopping channel in May, steadily bringing in W400-600mn in sales per appearance. This is due to the flagship product's price competitiveness: The retail price for Opera Milux is in the upper-W400,000 range, which compares with rival products that sell for more than W1mn. The company will recognize full-quarter revenue from the new product starting in 3Q19. The product, which is exclusively sold on GS Home Shopping at the moment, may also be available on CJ O Shopping starting in 2H19. Assuming a conservative estimate of W400mn in sales per appearance, Opera Milux is forecast to generate W11.6bn in sales in 2H19, up 203% from 1H19.

Fig 4. 2019E revenue breakdown by product



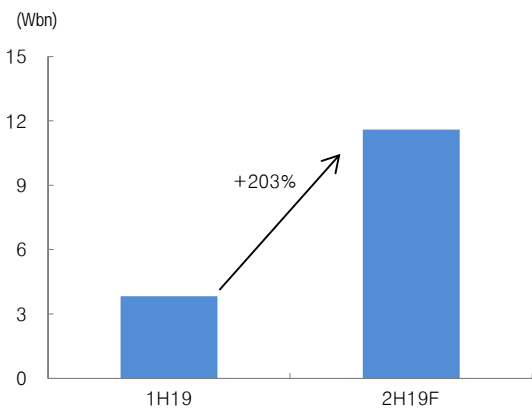
Source: GTG Wellness, Daishin Securities Research Center

Fig 5. Opera Milux (LED mask for face and neck)



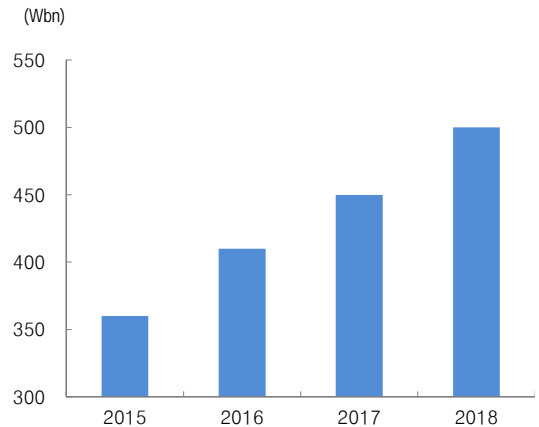
Source: GTG Wellness, Daishin Securities Research Center

Fig 6. Opera Milux sales trend



Source: GTG Wellness, Daishin Securities Research Center

Fig 7. Korea's beauty devices market size

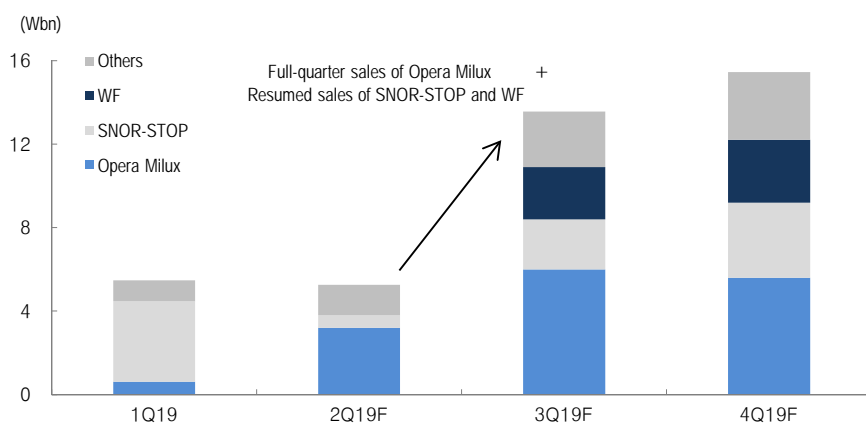


Source: industry data, Daishin Securities Research Center

### SNOR-STOP and WF Face Fitness to add diversity to B2C product lineup

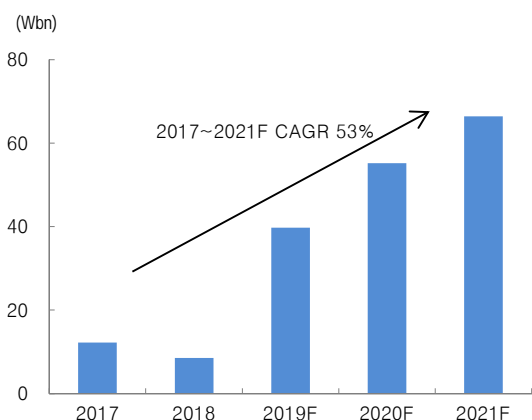
Other products such as SNOR-STOP (snore-reducing aid) and WF Face Fitness (face-lifting device) will also be available on TV shopping channels again. Sales of SNOR-STOP, which was temporarily taken off the shelf for a product renewal in April, will likely resume in the last week of June. The product is projected to lock in steady sales considering its increased price competitiveness and past performance. (It generated W400mn in sales per appearance in 1Q19.) WF Face Fitness will also return to TV shopping channels in early July. First launched in May, the beauty device was pulled off the air to undergo an overhaul for improved sales efficiency. GTG Wellness is projected to see full-year B2C sales jump 366% yoy to W39.7bn thanks to its diversified product mix and access to more TV shopping channels.

Fig 8. Quarterly sales of major B2C products



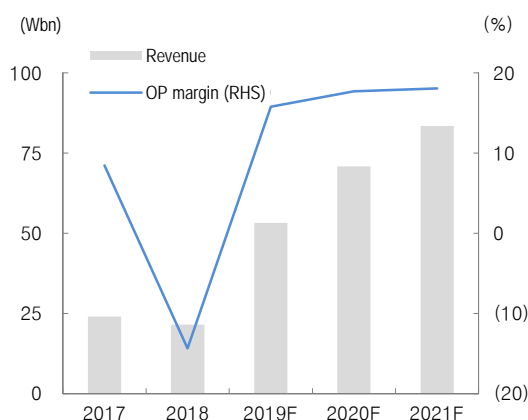
Source: GTG Wellness, Daishin Securities Research Center

Fig 9. B2C sales trend and forecast



Source: GTG Wellness, Daishin Securities Research Center

Fig 10. Sales and OP margin



Source: GTG Wellness, Daishin Securities Research Center

### A push into video commerce

GTG Wellness is in the middle of establishing a video commerce provider named HEYCOMM.ON. Considering the importance of seasoned professionals and their networks to achieving success in the media commerce space, the company has recruited marketing experts from media commerce company Blank Corporation and show hosts from TV shopping companies. On the back of its successful past experiences and strong marketing expertise, the company's new platform is expected to generate synergies with its existing beauty products.

### Clear signs of a turnaround in view

In 2019, GTG Wellness is forecast to report revenue of W53.3bn (up 148% yoy) and return to profit on an operating basis. B2C sales are forecast to reach W5.3bn in 2Q19, W13.6bn in 3Q19, and W15.5bn in 4Q19 with the help of the newly released Opera Milux and a diverse portfolio of medical devices and beauty products. Thanks to growing sales of profit-rich B2C products, GTG Wellness is poised to pull off a profit turnaround this year, ending the year with W8.4bn in OP (up 15.8% yoy).

Tab 2. GTG Wellness earnings forecast

(Wbn, %)

	1Q19	2Q19F	3Q19F	4Q19F	2018	2019F	2020F
Revenue	8.9	8.5	16.9	18.9	21.5	53.3	70.9
B2B	2.4	2.4	2.6	2.7	6.7	10.2	12.3
B2C	5.5	5.3	13.6	15.5	8.5	39.7	55.2
Others	1.0	0.9	0.8	0.7	6.2	3.4	3.4
OP	0.7	1.2	3.0	3.4	-3.1	8.4	12.6
NP	0.8	1.1	2.9	2.9	-5.7	7.8	10.5
OP margin	8.2	13.7	18.0	18.3	-14.3	15.8	17.7
NP margin	9.4	13.0	17.1	15.5	-26.5	14.6	14.8

Source: GTG Wellness, Daishin Securities Research Center

### Company profile

#### Overview

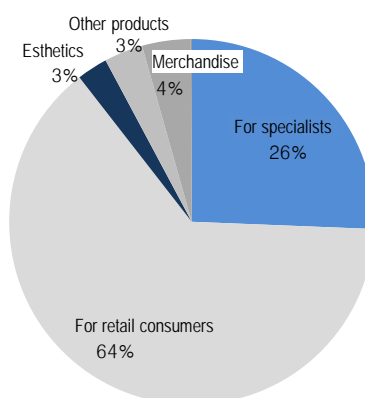
- A beauty and medical device specialist established in 1999, listed on the KONEX in 2015, and moved to the KOSDAQ in 2018
- Built a medical device factory in 2009; obtained approvals from the Ministry of Food and Drug Safety in 2012
- Main products include medical devices using ultrasound, laser, and high-energy radio frequency technologies, LED-based beauty devices
- Sales breakdown of medical devices (1Q19): specialist devices (26%) and at-home solutions (64%)
- Assets W45.4bn, liabilities W26.1bn, equities W19.3bn
- # of outstanding shares: 6,250,067, # of treasury shares: 183,868

#### Share price catalysts

- B2C sales expansion led by new product rollouts
- A wider regional exposure and B2B sales growth within Europe
- Increased shipments to China and other emerging markets
- OP margin growth and positive profits led by access to more various retail channels

Source: GTG Wellness, Daishin Securities Research Center

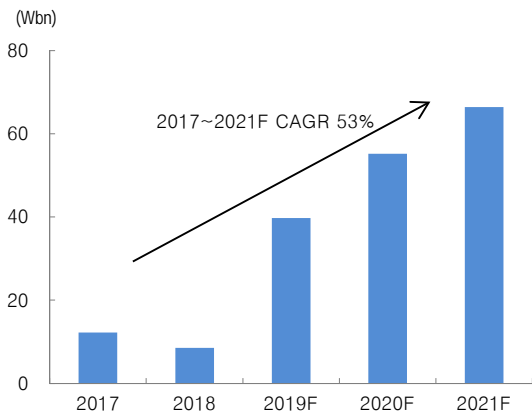
#### Revenue breakdown by business (1Q19)



Source: GTG Wellness, Daishin Securities Research Center

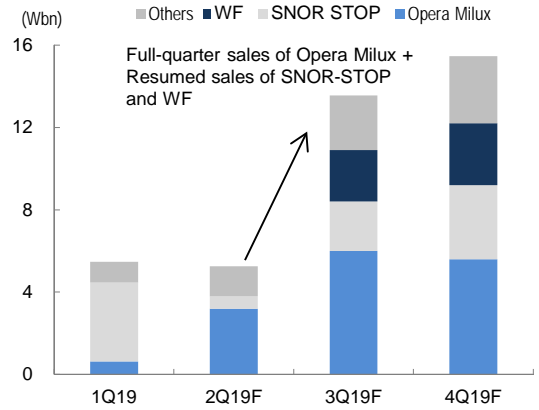
Earnings drivers

B2C sales trend and forecast



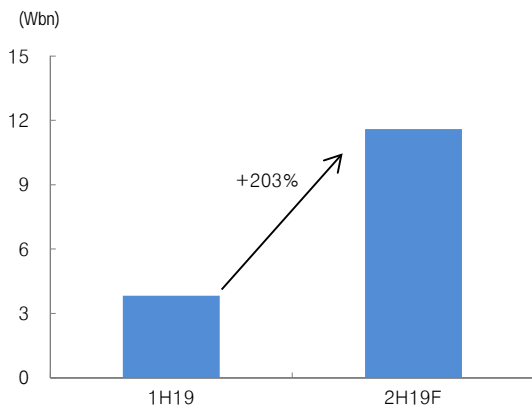
Source: GTG Wellness, Daishin Securities Research Center

Quarterly sales of major B2C products



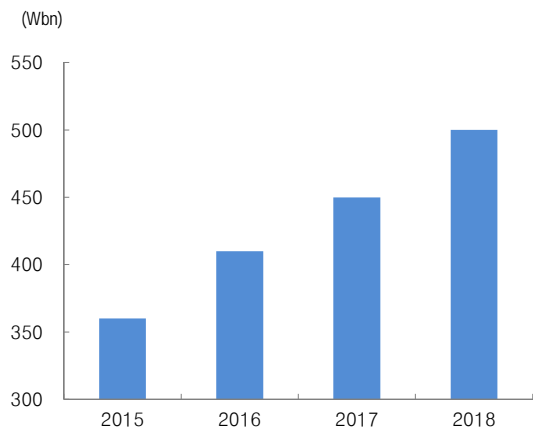
Source: GTG Wellness, Daishin Securities Research Center

Opera Milux sales



Source: GTG Wellness, Daishin Securities Research Center

Korea's beauty devices market size



Source: GTG Wellness, Daishin Securities Research Center

## Financial statements

Income statement	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Revenue	24	22	53	71	83
Cost of goods sold	11	12	25	33	39
Gross profit	13	9	28	38	45
SG&A expenses	11	12	20	25	30
OP	2	-3	8	13	15
OP margin	8.5	-14.3	15.8	17.7	18.1
EBITDA	3	-2	9	14	16
Non-OP	0	-3	0	0	-1
Income from affiliates	0	0	0	0	0
Financial revenue	2	1	1	1	1
FX related gains	0	0	0	0	0
Financial expense	-2	-3	-1	-1	-2
FX related losses	1	0	0	0	0
Others	0	-1	0	0	0
Income before taxes	2	-6	8	12	14
Income tax expense	0	1	-1	-2	-3
Income from cont. op.	2	-6	8	10	12
Income from discount. op.	0	0	0	0	0
NP	2	-6	8	10	12
NP margin	8.6	-27.4	14.6	14.8	14.2
NP for non-contr. interest	0	0	0	0	0
NP for contr. interest	2	-6	8	10	12
Valuation of AFS fin. assets	0	0	0	0	0
Other compreh. income	0	0	0	0	0
Comprehensive income	2	-6	8	10	12
Comp. income for non-contr. Int.	0	0	0	0	0
Comp. income for contr. int.	2	-6	8	10	12

Valuation metrics	(W, x, %)				
	2017A	2018A	2019F	2020F	2021F
EPS	1,278	-1,143	1,283	1,730	1,947
PER	8.5	NA	9.9	7.3	6.5
BPS	2,627	3,805	4,395	6,075	7,966
PBR	4.1	1.6	2.9	2.1	1.6
EBITDAPS	576	-424	1,490	2,162	2,575
EV/EBITDA	22.8	NA	8.4	5.2	3.9
SPS	5,349	4,159	8,521	11,336	13,355
PSR	2.0	1.5	1.6	1.2	1.0
CFPS	719	-129	2,201	2,830	3,167
DPS	0	0	0	0	0

Financial ratios	(W, x, %)				
	2017A	2018A	2019F	2020F	2021F
<b>Growth potential</b>					
Revenue growth	12.7	-10.6	147.6	33.0	17.8
OP growth	12.3	TTR	TTB	49.5	20.2
NP growth	53.0	TTR	TTB	34.8	12.6
<b>Profitability</b>					
ROIC	10.1	-13.1	31.5	39.6	41.4
ROA	8.5	-11.3	24.9	28.9	27.7
ROE	24.7	-36.2	33.0	32.1	26.9
<b>Stability</b>					
Debt ratio	110.2	47.2	40.0	27.8	21.2
Net borrowings ratio	65.5	17.6	-4.4	-21.8	-31.5
Interest coverage ratio	2.5	-6.2	0.0	0.0	0.0

Source: GTG Wellness, Daishin Securities Research Center

Balance sheet	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Current assets	18	20	28	37	47
Cash & cash equiv.	3	2	7	10	17
Trade & other receive.	5	6	9	12	15
Inventories	9	10	9	8	7
Other current assets	1	2	3	7	8
Long-term assets	8	9	10	12	13
Tangible assets	4	5	6	7	7
Investments in affiliates	0	0	1	2	3
Other long-term assets	4	4	3	3	3
Total assets	26	29	38	49	60
Current liabilities	6	8	10	9	9
Payables & other liab.	1	2	4	6	6
Borrowings	4	3	3	2	2
Current portion of LT debts	0	2	2	1	1
Other current liabilities	1	0	0	0	0
Long-term liabilities	8	1	1	1	1
Borrowings	3	0	0	0	0
Convertible securities	5	0	0	0	0
Other long-term liab.	1	1	1	1	1
Total liabilities	14	9	11	11	11
Controlling interest	12	20	27	38	50
Capital stock	1	3	3	3	3
Capital surplus	5	19	19	19	19
Retained earnings	5	0	7	18	30
Other capital changes	0	-2	-2	-2	-2
Non-controlling interest	0	0	0	0	0
Total shareholder's equity	12	20	27	38	50
Net borrowings	8	3	-1	-8	-16

Cash flow statement	(Wbn)				
	2017A	2018A	2019F	2020F	2021F
Operating cash flows	-1	-4	11	15	14
NP	2	-6	8	10	12
Non-cash items	1	5	6	7	8
Depreciation	1	1	1	1	1
FX gains	0	0	0	0	0
Equity method gain	0	0	0	0	0
Others	0	4	5	6	7
Chg in assets & liab.	-4	-3	-2	-1	-3
Other cash flows	-1	0	-1	-2	-3
Investing cash flow	-2	-4	-2	-4	-2
Investment assets	0	-1	-1	-1	-1
Tangible assets	-1	-1	-1	-1	-1
Others	-1	-1	0	-2	0
Financing cash flows	2	7	0	-2	1
Short-term borrowings	2	0	0	-1	0
Bonds payable	0	0	0	0	0
Long-term borrowings	0	0	0	0	0
Rights offering	0	9	0	0	0
Cash dividends	0	0	0	0	0
Others	0	-2	0	0	1
Net chg in cash	-2	-1	5	3	7
Beginning cash balance	5	3	2	7	10
Ending cash balance	3	2	7	10	17
NOPLAT	2	-3	8	11	12
FCF	1	-4	7	10	12



## [Daishin House View: Industry 4.0 safety rating]

---

- Daishin Securities assigns safety ratings to individual sectors and companies based on analyses and discussions by our analysts.
- Depending on whether Industry 4.0 will have a positive, neutral, or negative impact, each industry and company is assigned one of three safety ratings:

Dark Gray (negative)

Neutral Green (neutral)

Sky Blue (positive)

---

## [Compliance Notice]

In accordance with Subparagraph 5 of Paragraph 1 of Article 4-20 of the supervisory regulations for the financial investment industry, we confirm that no information or content has been shared prior to its release on Daishin's website, and that the analyst has not received nor will receive direct or indirect compensation in exchange for expressing specific opinions. Daishin is not affiliated with the company presented in this report. This report has been presented without any undue external influence or interference, and accurately reflects the personal views of the analyst who is responsible for its content.

Daishin Securities served as an underwriter for GTG Wellness' IPO.

This report is distributed for the purpose of helping investors make informed decisions. This report has been prepared from the data and information believed to be correct and reliable, but Daishin Securities does not make any guarantee as to the accuracy thereof. Investors reading this report should make final decisions based on their own judgment.

---

**For U.S. persons only:** For U.S. persons only: This independent third party research report is a product of Daishin Securities, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This independent third-party research report is distributed in the United States ("US") to Major US Institutional Investors (as defined in Rule 15a-6 under the Securities and Exchange Act of 1934, as amended) by Maybank Kim Eng Securities USA Inc. ("Maybank KESUSA") and Auerbach Grayson and Company LLC, broker-dealers registered in the US (registered under Section 15 of the Securities Exchange Act of 1934, as amended). All responsibility for the distribution of this report by Maybank KESUSA in the US shall be borne by Maybank KESUSA. All responsibility for the distribution of this report by Auerbach Grayson and Company LLC shall be borne by Auerbach Grayson and Company LLC.

If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Daishin Securities has entered into an agreement with two U.S. registered broker-dealers, Maybank Kim Eng Securities USA Inc and Auerbach Grayson and Company LLC. All U.S. persons receiving and/or accessing this report and wishing to effect transactions in any security mentioned within must do so with: Maybank Kim Eng Securities USA Inc. 777 Third Avenue 21st Floor New York, New York 1- (212) 688-8886 or Auerbach Grayson and Company LLC 25 West 45th Street, New York, NY 10036 and not with the issuer of this report.

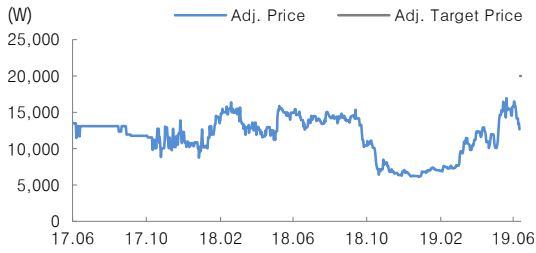
### **Analyst Certification of Independence**

The views expressed in this research report accurately reflect the analyst's personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

---

[Investment rating & Target price history]

GTG Wellness (219750 KQ)



Date	19.06.20
Rating	BUY
Target price	20,000
Diff. (avr. %)	
Diff. (max/min., %)	
Date	
Rating	
Target price	
Diff. (avr. %)	
Diff. (max/min., %)	
Date	
Rating	
Target price	
Diff. (avr. %)	
Diff. (max/min., %)	
Date	
Rating	
Target price	
Diff. (avr. %)	
Diff. (max/min., %)	

Investment rating breakdown and framework (Jun 19, 2019)

	BUY	MARKETPERFORM	UNDERPERFORM
Ratio	87.0%	12.0%	0.0%

Sector ratings breakdown

- Overweight: industry indicators are expected to outperform the market over the next six months.
- Neutral: industry indicators are expected to be in line with the market over the next six months.
- Underweight: industry indicators are expected to underperform the market over the next six months.

Company ratings breakdown

- Buy: the stock is expected to outperform the market by at least 10%p over the next six months.
- Marketperform: the stock is expected to either outperform or underperform the market by less than 10%p over the next six months.
- Underperform: the stock is expected to underperform the market by at least 10%p over the next six months.